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ABSTRACT

Some of the issues involved in promoting home ownership among blacks and investment in inner city communities are discussed in this paper. The experiences of the Bedford Stuyvesant Restoration Corporation in revitalizing Bedford Stuyvesant are described. Economic barriers to prospective home ownership are identified and strategies and programs that may help individuals overcome these barriers are outlined. The discussion of economic investment focuses on approaches that promote and encourage the creation and expansion of locally owned businesses. Ways in which large corporations and community development centers can help small businesses remain viable, in addition to their major contributions of providing employment to community residents and attracting capital, are considered. However, the author concludes that home ownership and economic investment in black communities depend on a comprehensive approach to the community's problems and on a relatively healthy and stable environment. (EB)

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PREPARED STATEMENT OF JAMES SHIPP, VICE PRESIDENT
OF BEDFORD STUYVESANT RESTORATION CORPORATION, AT
THE NATIONAL CONFERENCE, "BLACK FAMILIES: A SOURCE
OF NATIONAL STRENGTH," CHICAGO, ILLINOIS, NOVEMBER 3, 1977

Mr. Chairman. My name is James Shipp. I am
Vice President of Bedford Stuyvesant Restoration Corporation
("Restoration"). Thank you for inviting me to participate in this
conference.

I have been asked to discuss the topic: "Reinvesting
in Black Communities." In the course of these remarks, I will address
this matter in two aspects: First, promoting home-ownership among
Blacks; and, second, promoting economic investment in inner city
communities. Throughout, I believe it will be instructive if I draw
on the experience and activities of Restoration as they relate to this
topic.

I would like to begin very briefly by describing Bedford-
Stuyvesant and the role of Restoration in the revitalization of our
community.

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Bedford Stuyvesant is a "city" in Central Brooklyn of approximately 350,000 people living on 653 blocks stretching over five square miles. In 1967, Bedford-Stuyvesant presented a classic example of urban decay. The area was overcrowded and deteriorating; housing was inadequate. Educational opportunities were substandard; and health and sanitation conditions were bad. There was almost no public or private investment to spur economic or physical development. In short, the free enterprise system was not working in Bedford-Stuyvesant. Nothing was being done to correct the situation and the residents were substantially without hope.

Restoration was organized in May of that year to implement a fresh new approach to the problems of the inner cities, to coordinate the tremendous human resources and desires of the Bedford Stuyvesant community with the technical and financial resources of the private sector of New York, and thereby to encourage reinvestment in the area. The goal was nothing less than the total physical, social and economic revitalization of Bedford Stuyvesant.

Restoration is funded through Special Impact Program grants from the federal Community Services Administration, and the private sector through foundations, corporations and individuals, and from revenues generated by certain program activities.

Since its inception, Restoration has attempted to initiate and implement a comprehensive community development program to arrest the physical and economic decay of the area. Restoration's programs are divided into three broad categories: Economic Development, Physical Development, and Social and Cultural Programs. In furtherance of our objectives, our accomplishments in the first ten years have included the completion of 720 units of new construction and rehabilitated housing, with an additional 467 units in process; the exterior renovation of 3682 homes on 96 blocks; the opening of a major commercial and office complex; providing approximately \$23 million of mortgage loans to more than 1000 home owners and purchasers; providing more than \$8.5 million in financial assistance to local businesses; and placing more than 7000 local residents in productive jobs.

Although we believe that we have stemmed the downward-spiral in Bedford Stuyvesant, we recognize fully that the task at hand has not been accomplished. Significant "Reinvestment in Black Communities" is an undertaking that can be achieved only in the long run. However, we take heart in the fact that private capital has begun to flow into our target area: Our efforts have led directly to the investment of about \$60 million from the private sector.

Turning now to the matter of promoting home-ownership by Black families. The supply side of the equation is favorable. In general, the populations of inner cities are decreasing and consequently there is a reduction of pressure on the existing housing stock of these communities. Vacant housing is available for those interested in acquiring homes. Many of these properties, because of mortgage or real estate tax foreclosure, are in the hands of federal or local governmental agencies. In Bedford Stuyvesant, for example, there are approximately 2000 vacant buildings, of which approximately one third are owned by governmental agencies.

I should note, parenthetically, that Bedford Stuyvesant, because of its sound housing stock, does have a high degree of resident home ownership. Two-thirds of the 25,000 residential properties in the community are one and two family houses, many of which are sound and beautifully constructed brownstones. Almost half of all buildings in Bedford Stuyvesant are owner-occupied, including over 60% of the one and two family dwellings.

Given the availability of structurally sound housing in many inner city communities, the problem of promoting home-ownership translates largely into that of increasing the demand among Black families for housing in these communities. (I am referring to "demand" broadly as a function both of families' need or desire for housing and their income level.)

I will not dwell on this obvious point, but the current economic climate seriously reduces demand for housing. The decline in the number of jobs and resulting increase in unemployment have hit the hardest in urban areas, especially among minorities. For example, in the last 7 years, New York City has lost approximately 650,000 jobs. The unemployment rate in Bedford-Stuyvesant is now approximately 16%.

A significant increase in the demand for housing thus awaits the time that the federal government squarely addresses the critical economic problems confronting our cities, especially unemployment. We are now beginning to see federal programs -- such as those pursuant to the Comprehensive Employment and Training Act -- dealing with unemployment and urban problems, but we have not yet witnessed the massive programs that are required.

The inner city presents a host of disincentives and barriers to the prospective home owner. The costs of maintaining a home in an urban area -- especially a minority community -- are disproportionately high. These costs include those for labor and materials, insurance, utilities (especially in Northeastern and North Central urban areas), and real property taxes. As one example, the tax assessment procedures in New York City are discriminatory. A

comparison of assessed values as a per cent of market value shows that assessment ratios are approximately two-thirds higher in Bedford-Stuyvesant than in the rest of the Borough of Brooklyn and the City.

Beyond this, it is well known that government services in many of the nation's cities that are experiencing fiscal problems, such as New York, are on the decline. Such vital services as sanitation, transportation, recreation, education, fire and police protection, are typically inferior in the inner city, and amenities are sorely lacking.

The prospective home owner who is prepared to accept the foregoing disadvantages of urban living is faced with the further problem of obtaining mortgage financing in the inner city. Our experience in Bedford-Stuyvesant is illustrative.

Prior to Restoration's involvement in the area of home credit, mortgage loans on reasonable terms for small and medium-size residential properties were not available in Bedford-Stuyvesant as they were in other areas. The volume of FHA loans was very low. The mortgage loans that were available were obtainable only at very high effective interest rates and usually involved large down-payments. In the fall of 1967, Restoration persuaded a group of eighty banks and nine insurance companies to pool from their respective resources approxi-

ately \$65 million for FHA - insured and VA - guaranteed mortgage loans to Bedford-Stuyvesant residents. Since then, as previously noted, \$23 million has been loaned on over 1,000 one to four family houses under Restoration's mortgage program. In 1971, our mortgage company subsidiary became an FHA - approved lender, thereby allowing it to make direct FHA and VA loans to homeowners.

Although we believe that our mortgage program has been and continues to be an important asset for Bedford Stuyvesant, we are disappointed that the volume of loans closed has not been greater. Among the factors that bear on this, are certain practices and policies of the federal government and of private lending institutions.

First, there is the matter of FHA redlining. Cloaked in the guise of "cumulative adverse conditions", the FHA will still not insure mortgages in large sections of Bedford Stuyvesant. On numerous occasions our mortgage banking company is unable to help owners and prospective owners of homes in these areas because the government refuses to give the necessary mortgage insurance. These applicants are for the most part working families who wish to improve their dwellings and establish or maintain roots in the community.

Other federal policies impede mortgage financing. For example, by refusing to give conditional mortgage commitments for permanent financing on homes where substantial repairs must be made,

the FHA cripples homeowners' efforts to obtain interim construction financing, and, in turn, permanent mortgages. Thus a large number of basically sound buildings is left in a state of disrepair. This is a vicious circle that can only help to hasten further decline.

A related problem is the lack of construction financing. In older urban communities such as Bedford Stuyvesant, there is a dire need for construction loans to finance much-needed repairs. We have found that even when the federal government will commit to insure a permanent mortgage conditioned on the completion of certain minor repairs, private lending institutions have generally been unwilling to make these critical, short-term funds available to Bedford-Stuyvesant homeowners. These institutions profess reluctance to become involved in monitoring loan proceeds and inspecting the work to be financed.

Restoration has been fortunate to have earned the confidence of several large commercial banks, which have made over \$5 million in short and long-term loans to it for building rehabilitation. One such bank has extended to us a \$1 million line of credit to finance the moderate rehabilitation and subsequent sale of 1-4 family homes in Bedford-Stuyvesant. With an affiliate of Restoration as the borrower, this program has the potential for meeting the community's critical need for interim financing. It is the rare case, however, where conventional lending sources have loaned uninsured mortgage dollars

directly to Bedford-Stuyvesant homeownership families.

In view of the variety of factors impeding homeownership in Black communities, there is no single, simple answer to the problem. As indicated, part of the answer lies in the cessation of discriminatory policies by governmental agencies, lending institutions and insurance companies.

Another piece of the solution is the provision of suitable financing vehicles for prospective homeowners and for developers who are building or rehabilitating housing for sale. The financing vehicles must take into account the economic realities of construction in the inner city.

It is generally known that in inner city areas, the cost of projects involving extensive or so called "gut" rehabilitation exceeds the achievable selling or "market" price, even though the same product could be sold at or above cost if it were in a more affluent area. We commend programs that recognize this fact, such as the Small Home Ownership Program that has been developed by the City of New York. Under this program, the City plans to utilize part of its Community Development Block Grant funds to pay the developer of rehabilitated housing the inevitable gap between the rehabilitated cost of a building and the ultimate selling price.

The nature and scope of the various mortgage insurance and subsidy programs of the Department of Housing and Urban Development ("HUD") that are applicable to the individual homeowner vary over time. For present purposes, I would like only to observe that in order for any of these programs to make an impact on homeownership in inner city communities they too must be grounded in economic reality. Among other things, the amount of the allowable mortgages must be high enough to approximate construction and other project costs; the debt service must be affordable, which means that generally below market interest rates are in order; bureaucratic red tape must be minimized; requirements (such as public bidding of construction contracts) which are overly burdensome for small projects must be eliminated; and, finally, the program must be adequately funded to reach a significant number of people. Suffice it to say that many HUD/FHA programs have not had all of these attributes.

Another vehicle for home-ownership is urban homesteading, which has been instituted on a modest scale in several American cities. By urban homesteading, I refer to the conveyance to individuals for a nominal sum of dilapidated or deteriorated buildings in the inner city, with an obligation on the part of those individuals to perform the necessary repairs and to put the properties to residential use.

One reason why urban homesteading has not been more successful is that the program has not always included appropriate provision for financing to meet the cost of repairing the deteriorated units to building code standards. In this connection, the recent designation of a 12 square block area in the Morrisania section of the Bronx, New York, for a homesteading effort is noteworthy. Recognizing the central importance of providing for financing at the inception, HUD and the City of New York have made the following arrangements: job training funds under the Comprehensive Education and Training Act have been allocated; commitments for construction financing from private lending institutions have been obtained; and a direct federal loan at 3% interest to be paid over 20 years has been arranged for permanent financing. We hope that this experiment will prove successful and serve as a model for replication elsewhere.

Another potential drawback of the urban homesteading effort is that unless it is part and parcel of a program for the overall redevelopment of blighted areas, the individual homesteaders will occupy properties surrounded by deteriorating neighborhoods. This highlights the central point regarding homeownership in the inner city. If we view the problem narrowly as a housing problem, and construct or rehabilitate units for individual homeowners without focussing on the other crying needs of our cities, we will not be solving the problem. Promoting home-ownership must be considered in the context of the entire process of urban recovery. Good housing in a

community which is economically unviable and culturally barren is impossible.

The second aspect of reinvestment in Black communities to be addressed is that of economic investment. The most direct approach is to promote and encourage the creation and expansion of locally owned businesses. Although this approach unquestionably has merit, its difficulties and limitations must not be overlooked.

In recent years, new small businesses generally have not fared well nationwide, and the mortality rate of minority businesses has been particularly high. The entrepreneur who tries to start up or expand a business in the inner city faces many of the same difficulties that confront the prospective home purchaser: higher taxes and other costs, insurance redlining, difficulties in obtaining financing. In addition, the community provides a relatively low-income market place. The problems posed by the community itself are exacerbated by the fact that because of past discrimination, there is a shortage of Blacks with managerial expertise. Furthermore, given distribution of income in this country, small businesses owned by Blacks tend to be undercapitalized.

Notwithstanding these various obstacles, as Restoration's experience shows, with proper financing and planning, small minority owned businesses can succeed in the inner city. To date, as noted

earlier, Restoration's Economic Development Division has provided approximately \$8.5 million of financial assistance to 125 locally owned businesses for start up or expansion. These businesses range from small retail and services operations to larger manufacturing, food franchise and construction companies. Our assistance has come in the form of loans, loan guarantees or equity capital depending on what best suited the venture in question. Leveraging our own dollars, we have been able to attract an additional \$8 million of private capital into Bedford Stuyvesant for these businesses.

While some of these businesses have not remained viable, the success rate of the ventures to which we have provided assistance has throughout the years of our economic development program compared favorably with new businesses generally throughout the country. We believe that the principal reason for this relative success is that we have provided management assistance. We have assigned a business analyst on our staff to each of these ventures and have offered day-to-day assistance in all phases of business operations. We have found it critically important that before start-up, the product or service to be offered by the particular venture be analyzed in the context of the market afforded by the local community and the possibility of reaching a wider market-place. Once operative, special attention must be given to each business when it encounters critical difficulties or opportunities.

While small businesses offer valuable opportunities for private ownership, independence, and the development of managerial skills, their role in the economic revitalization of Black communities is necessarily limited. We know that for a variety of reasons, the ranks of the self-employed in the United States are dwindling. Wages rather than profits will remain the bulk of all income. Therefore, the task of significantly increasing the income of community residents and providing more and better employment and training opportunities, rests largely with bigger business enterprises.

As is well publicized, New York City and other older cities are struggling to retain the businesses they now have. Clearly, trying to attract major industry to communities such as Bedford-Stuyvesant is a tall order. However, as our experience with the International Business Machines Corporation shows, it is feasible.

In 1968, partly at Restoration's behest, IBM decided to locate a light manufacturing plant in Bedford-Stuyvesant. IBM's move into a renovated warehouse created some 400 new jobs for unskilled local residents. Two points are noteworthy about IBM's experience. First, IBM did not receive any direct or indirect government subsidies or monies from other sources (including Restoration) in connection with its move to Bedford-Stuyvesant. Secondly, the plant, when operational in Bedford-Stuyvesant, did not experience the problems --

such as high employee turnover — normally associated with conducting business in the inner city.

Pleased with its experience in Bedford-Stuyvesant, and desiring to move to a plant more physically compatible with its operations, IBM approached Restoration in 1975 for assistance in its efforts to relocate. We identified and assisted IBM in acquiring a site within a few blocks of its old plant, and construction is now underway on a \$7.5 million dollar facility at this new location. Restoration has continued to act as a consultant to IBM on this project and our construction company subsidiary was awarded part of the work on the new site.

We have also attracted a number of businesses and utility companies to locate stores and offices in our commercial center complex. These include Lerner Stores Corporation, Smart Size (a subsidiary of Lane Bryant), Chemical Bank, Consolidated Edison, New York Telephone Company and Brooklyn Union Gas Company.

We are optimistic that other industrial corporations will follow IBM's lead. The federal and local governments can play a role in this connection. As IBM discovered, the inner city has a readily available labor pool. Through manpower training subsidies, other large corporations can be encouraged to locate in Black communities and tap this vital resource. The government can further sweeten the pot by

providing tax incentives and, perhaps more importantly, by cutting through the mass of red tape that frequently sends major industry to the hinterlands -- for example, by streamlining land assemblage and compliance with building codes.

Finally, I would like to mention the role of community development corporations (or "CDC's"), such as Restoration, as vehicles for reinvestment in Black communities. Like other big corporations, a mature CDC is a viable, stable entity which directly and indirectly provides employment opportunities for community residents and attracts capital to the community. A CDC has the added feature of being responsible and responsive to the needs of the community. I don't think it would be misleading to say that community residents, analogous to stockholders of for-profit corporations, enjoy the beneficial ownership of CDC's, which are typically organized as non-profit, non-stock corporations.

The various program activities of CDC's impact on the economic development of the communities they serve. Consider, for example, Restoration's physical development activities. Restoration quickly recognized that the very processes of real estate maintenance, development, rehabilitation, financing and new construction were themselves industries to be tapped for the benefit of Bedford Stuyvesant residents and businesspeople. Whenever possible, local labor and

contractors have been used, materials and supplies purchased locally, and the services of local professionals retained. Furthermore, the various components of Restoration's physical development program, which take the form of either separate business corporations or operating divisions of Restoration, are attempts to create local, eventually self-sustaining institutions to engage in most aspects of the real estate industry.

Of course, an essential aspect of reinvestment in the inner city, is generating a flow of money from outside the community. As our experience shows, CDC's can play a part in that process.

One of Bedford Stuyvesant's central problems when we began our efforts in 1967 was the virtual absence of private investment to encourage business or physical development. As indicated earlier, we have attracted approximately \$80 million from the private sector. Most heartening, much of this money was provided without the security of a guarantee either from the parent corporation or from any government agency. Regarding public sector support, a CDC continually acts as an advocate and watchdog for the community it serves. In constant touch with all government agencies at the local level, the CDC speaks up when the community does not enjoy its fair share of municipal services. Equally, the CDC sees to it that the community and the local residents reap the benefits of the various governmental programs that

are available — participation in CETA programs, receipt of SBA guaranteed loans, an equitable share of block grant funds and Section 8 allocations, and the like.

I would like to sum up by making this observation. Even a brief consideration of the matter of promoting homeownership and of spurring economic reinvestment in Black communities reveals that the underlying problems are so multifaceted and interrelated that nothing less than a comprehensive approach to the community's problems is required. Unless the community is healthy in all of its aspects — shopping, education, amenities, and so on — it will not provide a climate which will attract home purchasers, private lenders, or businesses.

Among the principal deterrents that inner cities pose to major industry is the element of uncertainty. Sound business thrives on planning and the ability to make predictions and projections within reasonable parameters. This in turn depends on an environment which is relatively healthy and stable.

The comprehensive approach that must be undertaken requires the joint effort of the government, the private sector and the community. While the cost of this effort will be great, the cost of doing less is greater.